



April 27, 2006

*Rosalind M. Hewsenian
Managing Director*

Ms. Anne Stausboll
Interim Chief Investment Officer
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95814

Re: International Equity Spring-Fed Pool Recommendation

Dear Anne,

You had requested Wilshire's opinion with respect to Staff's recommendation of candidates for the developed and emerging markets non-US Equity mandates to be included in CalPERS' Spring-Fed Pool. Wilshire concurs with Staff's recommendation.

Background

Staff released a Request for Proposal (RFP) for developed and emerging markets non-US equity managers. CalPERS received 28 useable responses for the developed markets mandate and 20 responses for the emerging markets mandate. The emerging markets mandate also included a requirement to comply with CalPERS' geopolitical considerations and the Global Sullivan Principles and the ILO Conventions regarding Rights at Work.

Staff is recommending the following managers in each category¹:

Developed Markets

AXA Rosenberg
Batterymarch
Boston Company
Fidelity
Goldman Sachs
Panagora
SSGA

Emerging Markets

Batterymarch
Lazard Asset Management
Pictet
Robeco

¹ Wilshire's Code of Conduct requires us to disclose that certain of these managers are clients of Wilshire's Analytics Services Division and as such pay Wilshire a fee for services rendered. The names of CalPERS developed and emerging markets equity managers that are clients of Wilshire will arrive in a separate letter, in accordance with our Code of Conduct.

Discussion

Wilshire independently reviewed and evaluated all of the candidates who responded to CalPERS' RFP. Our process has consisted of several steps:

- A qualitative assessment of a firm's organizational and ownership structure, quality and caliber of professional staff, depth of resources, pending litigation, compliance and culture.
- A qualitative assessment of a firm's investment process that addresses the sources of information the firm uses to start its investment process, its uniqueness and processing; its ability to use that information or research to forecast the expected results of its individual investments; the process by which portfolios are constructed, including risk management and alpha generating considerations; the firm's ability to implement, including its resources dedicated to trading; and performance attribution: how the firm reviews its results and utilizes the attribution as a feedback mechanism to address performance and risk issues early on, and to communicate results to clients.
- Additionally, Wilshire also conducts several quantitative assessments, including its own detailed attribution analysis and a calculation and assessment of product characteristics, which, for non-US equity, includes country and currency allocations, valuation and equity risk measures, market capitalization orientation and fundamental characteristics.
- All of the managers have received on-site visits by Wilshire personnel as part of the due diligence process.

Wilshire also participated in Staff's interviews of the candidates that took place in CalPERS' office. Staff has received copies of Wilshire's analyses and qualitative assessments of all the candidates.

Findings and Recommendations

Wilshire has determined that each of the candidates that Staff is recommending for the pool of candidates in both mandates are solidly of intuitional quality, and are highly evaluated by Wilshire. Further, Wilshire also reviewed the proposed "fit" of each candidate against Staff's stated objectives for this search, namely to identity manager products that can further CalPERS' goal of consistent alpha within a well-managed risk framework. The managers Staff is recommending offer products that are consistent with these objectives.

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Wilshire reviewed the firms that Staff did not select to determine if there were any products proposed that should have been included. Wilshire is satisfied that Staff has not excluded any firms that should have been included. We have also addressed with Staff the funding sources for the new managers and are satisfied with how Staff intends to manage this process. Staff's record of managing the cost of transition has been excellent.

Wilshire recommends that the Investment Committee approve the list of managers Staff is requesting to be included in the Spring-Fed Pool of international equity managers.

Should you require anything further or have any questions, please do not hesitate to contact us.

Sincerely,

Handwritten signature of R. M. Hensenian in cursive script.